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RECENT DEVELOPMENTS PERTAINING TO GRAIN EMBARGO

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

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CONTENTS

	Page
Wampler, Hon. William C., a Representative in Congress from the State of Virginia, opening remarks	1

WITNESSES

Hathaway, Dale E., Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture; accompanied by Bob Bergland, Secretary, and Howard W. Hjort, Director of Economics, Policy Analysis and Budget	4
Responses of Bob Bergland, Secretary, U.S. Department of Agriculture, to questions submitted by Hon. E. Thomas Coleman, a Representative in Congress from the State of Missouri	36

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RECENT DEVELOPMENTS PERTAINING TO GRAIN EMBARGO

WEDNESDAY, JUNE 25, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The committee met, pursuant to notice, at 10:20 a.m., in room 1301, Longworth House Office Building, Hon. Thomas S. Foley (chairman of the committee) presiding.

Present: Representatives de la Garza, Jones of Tennessee, Bowen, Richmond, Baldus, Harkin, Bedell, English, Fithian, Panetta, Skelton, Huckaby, Glickman, Daschle, Hance, Stenholm, Wampler, Findley, Heckler, Grassley, Hagedorn, Coleman, and Thomas.

Also present: Representative Neal Smith of Iowa.

Staff present: Fowler C. West, staff director; Robert M. Bor, chief counsel; John E. Hogan, counsel; Robert T. Lowerre and J. Robert Franks, associate counsels; Glenda L. Temple, clerk; Bernie Brenner, Kate Garvin, and Gary Norton.

The CHAIRMAN. The committee will be in order. The Chair notes the presence of a quorum.

The committee meets today with the distinguished Secretary and Under Secretary of Agriculture as well as other departmental witnesses in order to discuss recent developments in the U.S. Department of Agriculture's policy on the suspension of the shipments of grain to the Soviet Union.

Before proceeding with our witnesses today, I recognize Mr. Wampler for any statement he may care to make. Mr. Wampler?

OPENING REMARKS OF HON. WILLIAM C. WAMPLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. WAMPLER. Thank you, Mr. Chairman.

Mr. Chairman, I wish to commend you for calling these hearings. The timing is propitious—the administration's grain embargo has been in effect nearly 6 months. The circumstances call for it—there is the appearance, if not the fact, that the administration is "easing" or "lifting" the embargo announced by the President on January 4, 1980, in retaliation for the Soviet Russian invasion of Afghanistan.

Let me make it clear at the outset that I stated publicly on the evening of January 4 that I disagreed with the President's action to impose a grain embargo. I would like to back the President of either party when he embarks on foreign policy initiatives such as this.

The Afghanistan invasion called for an American response that embodied a well thought-out strategy designed to muster the support

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of the free world countries and to force the U.S.S.R. to forestall, if not retreat from, whatever strategy it had embarked upon in its invasion of Afghanistan.

Whatever the U.S. strategy—the grain embargo was but a tactic as I view it within what I presume to be the administration's overall plan or strategy. It was the wrong tactic. It was a mistake, and I so labeled it at the time.

Why did I view the embargo as an error? I did so for the following reasons:

One, it is difficult for a country to impose an effective embargo upon another. Embargoes are generally ineffective unless the country it is imposed against can be isolated by a device such as a blockade.

During the Cuban combat brigade imbroglio last fall, even National Security Adviser Brzezinski, in response to a question about a grain embargo against the U.S.S.R., characterized it as akin to the United States "shooting itself in the foot."

Two, selective embargoes—such as the grain embargo—are more likely to be ineffective and unfair and burdensome to one sector or element in the economy. This was the case with farmers in this embargo.

Three, from the beginning, the administration's grain embargo appeared to be designed for long-term effect in a situation that appeared to call for prompt action that would show immediate cause and effect. Exempt from embargo were 8 million tons of mainly food grains

What was embargoed were about 17 million tons of mainly feed grains which the administration hoped would affect the Soviet meat diet this summer or next fall. The embargo as designed was big enough to hurt the U.S. producer but not so large as to affect the U.S.S.R. cereal diet.

Four, the imposition of the embargo appeared to be abrupt with insufficient knowledge of its effect. The cost has been placed at $3 billion by the administration, and one wonders if a large part of that will not go to large grain companies whose $14 billion in contracts the administration was forced to assume by January 7, 1980, because of failure to forecast the effect of the embargo on the market.

Where are we now? Well, let me recapitulate as I see it.

First, farm prices have been adversely affected since the January embargo.

Second, an unfair portion of the burden of the selective embargo is falling on farmers. Moreover, prospects into 1981 are bleak, inasmuch as the administration imposed no set-aside and no land diversion programs for the 1980 crops.

Economists are projecting huge carryovers and low prices into 1981 for farmers. Chase econometrics says this will be the worst year for farm income—in real dollars—since 1934.

Third, the U.S.S.R. is getting mainly food grains from the United States—8 million tons—and feed grains from Brazil, Argentina, and others. The embargo from all available evidence appears a failure.

Fourth, the U.S.S.R. meat shortage has not materialized or at least proof of it is not evident.

Fifth, free world cooperation on the embargo has been spotty at best.

Sixth, token U.S.S.R. troop withdrawal from Afghanistan, as predicted in January, is potentially about to weaken Western—if not

U.S.—resolve on diplomatic and military moves to counter the U.S.S.R. invasion.

The President is quoted this morning as "exploring a transitional arrangement" with Russia at a time administration officials are criticizing Members of the House and Senate for introducing bills to repeal the embargo.

Seventh, the United States has begun what appears to be a change in policy by "softening," "easing," or "lifting" an already ineffective embargo against the U.S.S.R. by permitting sales of foreign grain by foreign subsidiaries of U.S. grain companies to the U.S.S.R.

The last item has been claimed by some to have the appearance and may be designed by the administration to be a "de facto" repeal of the embargo by permitting or inviting further circumvention of the embargo.

There are those who suggest that as a residual supplier of grain to Canada increased shipments of Canadian grain to the U.S.S.R. could result in greater U.S. residual shipments to Canada to replace such U.S.S.R. shipments. Such an arrangement could only have the effect of easing the embargo.

Furthermore, there is some evidence that permitting Cargill, Bunge, and other international grain companies to make Argentine shipments to the U.S.S.R. may greatly increase the amount of that country's shipments to the U.S.S.R.

If third country sales by foreign affiliates of U.S. grain companies is a good idea today, why has it been foreclosed for 6 months?

Cargill has stated publicly that the USDA has changed its policy in foreign subsidiary sales of foreign grain in countries that sell grain to the U.S.S.R. USDA apparently disagrees.

Many perceive the USDA action as a partial or phased "lifting" of the embargo. Rumors are rampant that the administration may itself announce the cancellation of the embargo by Friday of this week as part of a "transitional arrangement" with the U.S.S.R.

Congressmen and Senators of both parties who are introducing bills to repeal the grain embargo obviously see the administration's action as "easing up" on the embargo and are saying that since it has not worked, why not repeal it.

If the administration is about to lift the embargo, why not acknowledge its failure rather than try to justify or use it as a public relations gimmick for some capitulation to the U.S.S.R. on a "transitional arrangement."

I hope the administration has some solid testimony and evidence that backs up its statements that the recent embargo announcement "does not constitute a change in policy."

Or, I suggest the administration admit the failure of the grain embargo and concentrate instead on a U.S. strategy that will emphasize positive and attainable goals for a unified free world approach to the issue of the U.S.S.R. invasion of Afghanistan.

I do not want to see farm policy entangled in any foreign "appeasement" policy of the United States toward Soviet Russia.

Thank you.

The CHAIRMAN. Thank you, Mr. Wampler.

Mr. Secretary, Under Secretary Hathaway, and Mr. Hjort, we are happy to welcome you to the committee.

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I think at this juncture we would be happy to hear any statement you gentlemen would like to make, after which we will receive questions from the committee members.

Secretary Bergland?

Secretary BERGLAND. Thank you, Mr. Chairman.

Mr. Chairman, and members of the committee, I have asked Under Secretary Hathaway to present the formal statement this morning. He is the person who has been in charge of this entire Soviet-United States grain negotiation and is intimately familiar with the details.

Dr. Hjort and I will be available to answer any questions which may arise on matters pertaining to this or any other subject.

The CHAIRMAN. Mr. Hathaway, you may proceed.

STATEMENT OF DALE E. HATHAWAY, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY BOB BERGLAND, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, AND HOWARD W. HJORT, DIRECTOR OF ECONOMICS, POLICY ANALYSIS AND BUDGET

Mr. HATHAWAY. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, I welcome the opportunity to update you on our policy regarding restraint of grain sales to the Soviet Union.

I also want to clear up some misconceptions about an informal request made last January to several multinational grain companies and cooperatives to refrain from selling third country 1979 crop grain to the Soviet Union, and our reasons for believing that this request is no longer necessary.

With me today are Secretary of Agriculture Bob Bergland, and Mr. Howard Hjort, Director of Economics, Policy Analysis and Budget, who chairs our Government-wide grain suspension monitoring group.

At the outset, I would like to say there has been no relaxation or change in our policy which was adopted in response to Soviet aggression in Afghanistan. The request made in January that grain firms refrain from third country sales to the Soviet Union was intended to allow sufficient time for other exporting countries to adopt and implement their own restrictive policies, and to deal with a significant quantity of "uncommitted" 1979-crop grain that was available at that time and which was outside the control of these governments. This "uncommitted" 1979-crop grain is no longer available for sale to the U.S.S.R.

The Soviets' ability to purchase 1980-crop grain will be limited by the export policies of the United States and its trading partners and not by the activities of a few multinational grain corporations and cooperatives. It is useful to review the context within which the grains policy was developed and has operated. No one needs to be reminded of the Soviet invasion of Afghanistan and the need for a response by the free world.

On January 4, President Carter announced that he would suspend all grain shipments to the Soviet Union in excess of 8 million metric tons covered under the 4th year of the U.S.–U.S.S.R. Grains Agreement. Also suspended were shipments of other agricultural commodi-

ties related to the feed-livestock complex. Shipments of certain agricultural products unrelated to the feed-livestock complex, such as fruits and nuts, later, were allowed to resume.

On January 12, representatives of the major grain exporting countries met in Washington. At that meeting we received assurances that these governments would not replace U.S. grains withheld by the President's actions.

A copy of the statement agreed to by all the countries represented is attached to my statement and I would request that it appear in the record.

In the course of that meeting, it became apparent that there was a significant quantity of grain available in the countries represented, but which was outside the direct control of their governments.

At this point, it is important to understand the manner in which the world grain trade operates. One common misconception is that in countries which have governmental or quasi-governmental grain boards—such as Canada—all grain exporting is done directly by the boards. This is not true. Year in and year out, each of these boards uses private corporations to sell some of its grain.

The boards also use private corporations to merchandise, that is, handle the shipping logistics of some of the grain that the board sells. In other cases, such as the European Communities and Argentina, all export business is done by private corporations or cooperatives, and the official control over export quantities and prices are maintained by other mechanisms.

A second misconception is that the handful of multinational companies which participate heavily in the U.S. export business are the only firms capable of large-scale export activities around the world. This simply is not true. Many Swiss, Italian, Latin American, French, and Asian companies do worldwide business daily with many countries, including the Soviet Union. These foreign firms are virtually unknown in the United States because they do not generally operate directly in the U.S. cash grain markets. However, these companies may purchase U.S. products from U.S. grain merchandisers and sell them to other importing countries. This point is important to understand and it underscores a legal and practical point that I shall make later.

Now, as I said, during the January 12 meeting with other exporting countries, we became aware that substantial quantities of foreign 1979-crop grain had previously been made available to various companies for sale to "unspecified destinations."

Our rough estimate is that the quantity involved was 2.5 million metric tons to 3 million metric tons. This grain had already been licensed for export by Australia, Canada, the European Communities, and Argentina and, thus, private owner-exporters holding licenses could legally have sold it anywhere, including to the U.S.S.R.

It was our view that such "uncommitted" foreign grain was incremental to the quantities that various other governments had already officially agreed to supply the U.S.S.R., and that it was also incremental to any new restrictions imposed or planned by these governments. Therefore, it was in the interest of an effective restraint policy that "uncommitted," foreign origin, 1979-crop grain should not be sold to the U.S.S.R.

Inasmuch as this grain had been licensed by the various governments, and exporters could legally ship it to any country, the success of a restraint policy was based on the extent to which we could per-

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suade companies operating in the United States—both corporations and cooperatives—to voluntarily cooperate with the U.S. Government in restraining their third country grain sales to the Soviet Union of that 1979-crop grain.

Thus, after due consultation with the Secretary of Agriculture and other administration officials, I called those companies operating in the United States and involved in exporting grain to the U.S.S.R. and asked them to voluntarily refrain from selling to the Soviets any third country grain from the 1979 crop which they might own or might acquire.

These companies agreed to honor this request, even though they might have realized substantial profits from such sales, since, at that time, the Soviets were reportedly paying a premium to purchase "uncommitted" grain.

After January 7, 1980, the Department of Commerce instituted an export licensing system for all shipments of U.S.-origin grain to the U.S.S.R. to insure that no more than 8 million tons of grain would be shipped during the fourth agreement year.

It is a well-known and clear violation of our law for any company to knowingly ship U.S. grain to the U.S.S.R. or to reexport it from the original destination without authorization from the Department of Commerce.

In addition, the CCC-exporter agreement to assume suspended contracts, which 12 exporters signed, required that exporters certify that they and their affiliates have complied and will comply with any lawful restrictions or announced restrictive policies with respect to the exportation of agricultural commodities and products to the U.S.S.R. which have been or may be imposed by any foreign country with respect to commodities which have been produced in or are being transhipped through such country.

Finally, the USDA set up a Government-wide system to monitor Soviet grain purchases from all sources—a group chaired by Mr. Hjort. By late spring, the "uncommitted" grain in the hands of private firms had been sold. At that point, it became clear that the effectiveness of further efforts to restrain U.S.S.R. imports of 1980–81 crop grain would be dependent upon the export policies of third country governments.

Furthermore, an announcement had been made that the United States would honor the fifth year of the U.S.-U.S.S.R. Grains Agreement and, thus, the United States would license up to 8 million tons of wheat and corn for shipment to the U.S.S.R. beginning October 1, 1980.

Representatives of other governments pointed out to us that our informal prohibition of third country sales was interfering with their normal export activities. They made the point that the companies involved were violating the spirit if not the letter of the law of these countries by failing to participate in authorized sales.

Inasmuch as various restrictive policies implemented by these governments would control the overall level of exports to the Soviet Union in 1980–81, and, additionally, could control the unknown destination problem, the informal restriction of sales by certain private firms within these countries—and I might say it was a limited number of firms—was no longer necessary.

After carefully evaluating whether or not the informal third country request served any further purpose, it was concluded that it did

not and that it should be dropped. The companies involved were informed by telephone on Wednesday, June 18.

The subsequent flurry of newsstories and statements appear to be based upon three misunderstandings of the facts:

The first is that this action was a relaxation or change in policy regarding the limits of sales to the Soviet Union. This is not the case.

Our January request regarding sales of third country grain was made only to deal with the "uncommitted" grain that was available at that time and has no effect upon, or relationship to, the official export policies of the United States or our allies vis-a-vis the Soviet Union.

The second misunderstanding is that if the dozen companies that were asked to participate in the third country sales restriction continued to abide by it, then the Soviets would be prevented from obtaining grain from non-U.S. sources. Given the large number of companies which operate entirely outside U.S. legal jurisdiction and that are capable and experienced in trading grain, this is just not true. Moreover, we cannot exercise jurisdiction over foreign corporations not owned or controlled by U.S. persons, when they trade in foreign origin grain.

The third misunderstanding is that this action puts U.S. farmers at a disadvantage to foreign producers. As matters now stand, U.S. farmers will sell from 6 million metric tons to 8 million metric tons of grain to the U.S.S.R. if the Soviets honor the fifth year of the agreement.

This is more than any other country will be selling to the Soviets during the coming marketing year. It will be the policies of the United States, Canada, Australia, the European Communities, and other governments which will effectively limit sales to the U.S.S.R. It will not be the actions or inactions of a small group out of a large universe of multinational grain traders.

I hope this explanation clears up the several misconceptions about what has happened, the rationale for our limited short-term request to the export companies; the effectiveness of it in curtailing shipments of uncommitted grain; and why our interests are no longer served by these restrictions.

We are aware that in a world economy, characterized by diverse sources of production, large volume of trade, and the fungible nature of grains, that some diversion could and would occur. But the exceptional cases, representing only small volumes of diverted grain, should not deter attention from the fact that our efforts to deny grain to the U.S.S.R. have been very successful.

We have constrained the Soviets' ability to draw upon world markets in a period of short Soviet crop and unprecedented needs. The Soviets' ability to acquire grain has been reduced by almost 11 million tons between October 1979 and September 1980.

The Soviets have been forced to draw heavily upon domestic grain reserves, leaving them highly vulnerable to a crop failure. Even if their crop is close to trend levels, the Soviets still would not be able to secure the grain necessary to replenish stocks.

The logistical coordination necessary to plan for and handle large grain movements to and within the Soviet Union has been severely disrupted, resulting in even greater stress on availability of grain for consumption.

Although it is difficult to specifically quantify the impact of our restrictions, the political message cannot be misunderstood.

The privileges of normal access to international commerce have been denied the Soviets as a consequence of their irresponsible behavior in Afghanistan. We remain convinced that our policy is correct, that it has been effective, and that it will deny the Soviets the maximum amount of grain at a most vulnerable time.

Thank you.

[The attachment to the statement follows:]

[News from U.S. Department of Agriculture]

STATEMENT BY UNDER SECRETARY OF AGRICULTURE ON GRAIN EXPORTERS' MEETING

WASHINGTON, January 12.—The following statement was issued by Dale E. Hathaway, Under Secretary of Agriculture, after today's meeting of representatives of countries involved in international export of grain (Official Text):

There is general agreement among the export representatives here that their governments would not directly or indirectly replace the grain that would have been shipped to the Soviet Union prior to the actions announced by President Carter.

Regarding this issue, the public statement of the Government of Argentina is well known, Nevertheless, in this meeting the delegation of Argentina has stated that in no case does the Government of Argentina intend to take trade advantages from the present international situation. Neither will it seek to alter artificially the current demands of the different markets.

In these circumstances, exporters will work in concert to avoid disruption of grain markets.

We will immediately establish a group for the purpose of examining trade flows on a continuing basis in order to accomplish our common purposes. Actual procedures which individual exporting authorities are in a position to use must differ and thus will be considered further by those concerned.

The United States indicated the possibility of meeting additional food aid needs beyond those already established. It was agreed countries would collectively examine those possibilities to insure that new food aid flows do not interfere with what would otherwise have been commercial transactions.

Finally, it was agreed this group will reconvene as necessary to review the situation.

The CHAIRMAN. Thank you, Mr. Hathaway.

At this time the Chair will recognize members for questions of the witnesses.

The normal 5-minute limitation on time will apply because of the obvious interest in the subject and because of the number of members present.

The Chair hopes that members will stay strictly within their allotted 5 minutes so that the maximum number of members will have an opportunity for asking questions. Mr. de la Garza?

Mr. DE LA GARZA. Thank you, Mr. Chairman.

Dr. Hathaway, I would like to say this. You talk about the political message not being misunderstood. Let me address myself to that.

Have we really done anything to deter the Russian intrusion in Afghanistan and all of the other activities by the grain embargo? I am talking about beyond your statement that it is understood.

Mr. HATHAWAY. I can only say, Mr. de la Garza, that I do not believe that the Soviets can fail to understand the seriousness with which the Government of the United States and the cooperating governments have viewed their action in light of the variety of actions of which the suspension of grain sales was one.

You will remember that there were a variety of actions and that a significant number of these are continuing and are expected to continue. I believe that the answer is, Yes.

Mr. DE LA GARZA. The reason I asked is because other countries, to use the vernacular, seemed to be "flaking" off. Insofar as the initial intrusion is concerned, they are still there.

There were other methods used to enforce our position beyond the grain embargo. At least from the public perception standpoint, without any inside information, it does not seem to have done anything so far as this Member is concerned.

The reason I asked the question is this: Is it your statement that this policy will continue? What is the intention so far as how long it will continue?

Mr. HATHAWAY. The Secretary may wish to comment on this. To my knowledge, there is no intention that this policy be changed. I have recently represented the Government of the United States at a meeting with the other grain exporters in which we asked them to continue their policy in concord with us. We have, so far as I know, their continuing support and believe that this does, in fact, indicate a general solidarity on a terribly important issue.

Secretary BERGLAND. Mr. Chairman, let me say this.

The fact is that the Russians have felt the sting. They are short of grain. They have been forced to draw on stocks. We do not know how much they had to draw against.

We know from our various sources that milk production in the Soviet Union is down. We know that the price of chicken is very high, which is $1.50 a pound, and more.

We have reason to believe that the Russians are scrounging all over the Soviet Union to move the best meats into Moscow to satisfy the demand generated by those who go to the summer Olympic games.

We do know that they have had unrest within the Soviet Union. It has been food-related.

How much of that pressure can be charged to the embargo is, of course, debatable. The fact is that they are in trouble.

Mr. DE LA GARZA. This happens every other year.

Secretary BERGLAND. Their grain yields, of course, are volatile because of their uncertain weather conditions. The fact is that the Soviets traditionally import, but the levels of imports have been climbing each year.

Mr. DE LA GARZA. I have no further questions, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Wampler?

Mr. WAMPLER. I have no questions at this time, Mr. Chairman.

The CHAIRMAN. Mr. Findley?

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. Secretary, Mr. de la Garza raised the question as to how long the embargo will continue.

As I understand it, the Department has announced that the 5th year of the grains understanding will be filled up to the 8 million metric tons limit. Does the Department view that 8 million metric ton limit as the absolute top for U.S. grain sales to the Soviet Union during this 5th year of the understanding?

Secretary BERGLAND. First of all, the President announced in his January 4 declaration that the United States would abide by the grains agreement. Implicit in that, of course, was that we would stand by the 5th year which has been reaffirmed.

As matters now stand, the Russians are obliged to take a minimum of 6 million tons and can take up to 8 million tons without further consultation. Insofar as I know, they have not yet purchased any, but this is about the season of the year in which they normally start to contract for delivery.

The decision as to whether they will take more than 8 million tons, or whether we will sell more than 8 million tons, will be up to them. It depends upon their behavior in Afghanistan.

Mr. FINDLEY. If Soviet troops remain in Afghanistan, then will our Government, under any circumstances, be willing to sell more than 8 million metric tons to the Soviet Union during this 5th year of the understanding?

Secretary BERGLAND. I cannot answer that. I know the matter has been under intense review by the President and leaders of the Western summit in Venice. I have not talked with the President since he arrived, so I am not able to answer your question.

Mr. FINDLEY. It is an open question and it is not a settled question?

Secretary BERGLAND. I do not know.

Mr. FINDLEY. The embargo will continue throughout the fifth year?

Secretary BERGLAND. I do not know.

Mr. FINDLEY. I can understand the reasons why the administration now sees fit to permit these major trading companies to deal with the Soviet Union on grain shipments from third countries. I think the agruments are persuasive.

My question is this. Why did not our Government foresee this need the day the embargo was announced, and, therefore, save a lot of pain and strain on the U.S. farmer? Why did you wait this long to permit trading by the grain company between third countries and the Soviet Union?

Secretary BERGLAND. I would ask Dr. Hathaway to talk in detail. But generally the agreements which he reached with foreign governments and with private grain companies applied to the remainder of the 1979–80 shipping year.

These discussions have applied to the terms and conditions in the 1980–81 shipping year, which in some countries start the first of July, and, in our case, starts the first of October.

Mr. FINDLEY. But I believe I am correct that as of the date that the grain embargo was announced, we elicited and got from the major grain trading companies the agreement not to serve third countries shipments to the Soviet Union also. That is now being changed as a result of this decision.

My question is this. Why did we wait so long?

Mr. HATHAWAY. Mr. Findley, I would like to answer the question. We waited because we wanted to make certain, No. 1, that the 1979 crop uncommitted grain had moved elsewhere. That appears to be the case at the present time.

Second, we wanted to wait until we had had the meeting we had last month in Brussels of the major exporting countries in order to get their views on the total approach to the Soviet Union before we made a decision on this issue.

Thus, it was not until we had that meeting and the discussions and requests and had discussed the issues with other countries that we could make this decision.

Mr. FINDLEY. Mr. Secretary, Dr. Hathaway has given his own appraisal of the success of the Soviet grain embargo. Would you say that the Soviet grain embargo has been a success and should be continued indefinitely?

Secretary BERGLAND. Success compared to what? That is the way we have to measure it. I think compared to the alternatives, it has been a success, yes.

Mr. FINDLEY. And should be continued?

Secretary BERGLAND. Yes, sir, so long as the Russians present a threat to our vital interests. The pressure should continue both in grain, high technology, and other matters.

Mr. FINDLEY. So long as the Russians have troops in Afghanistan?

Secretary BERGLAND. I cannot answer that. I do not know what the terms and conditions might be in which the President could find our vital interests are no longer in jeopardy.

Mr. FINDLEY. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. At this time, Mr. Secretary, I will have to excuse the committee for a few moments. This is not a routine rollcall. We are adopting Senate amendments on the Selective Service Act. It is an important vote on which Members will want to be recorded.

We will stand in recess at this point for 10 minutes.

[Recess taken.]

The CHAIRMAN. The committee will resume its sitting.

The time of the gentleman from Illinois having expired, the Chair recognizes the gentleman from Wisconsin, Mr. Baldus.

Mr. BALDUS. Thank you, Mr. Chairman.

With reference to the effect of the embargo on the economy in Russia, I noted in the paper the other day that there was a rather large strike, which is not a very common thing in Russia. The strike at an auto plant was because of the shortage of dairy products and beef, specifically.

I do not know how to put that in prospective. Does that occur from time to time? It was characterized as one of the greatest industrial incidents they have had. I wonder if that is symptomatic? Is your intelligence able to chacterize that as to what it means to the Russian economy?

Secretary BERGLAND. I would yield to Dr. Hjort later. But as a general policy, the Soviet Government has pledged to its people that it will increase the production of livestock and livestock products. Each 5-year plan contains expansion of this element of the food-producing sector.

They have not lived up to their plans. They have not succeeded in this regard. Therefore, there is disappointment, of course, among the Russians. How much activity there is, it is hard for me to be sure of, but I will yield to Dr. Hjort on the numbers.

Mr. HJORT. Mr. Baldus, the reports, as the Secretary has indicated, do suggest that the Soviets are having difficulties in providing meat and milk to their people.

So far as the overall situation is concerned, in our initial estimates of quantities of grain which they would be able to obtain from alternative sources, we said—and it appears in Mr. Hathaway's statement of January 22—4 to 9 million tons of grain that they would likely be able to obtain from other sources. At the present time, our current estimate is 6 million tons, which is well within the range of our initial estimate.

So far as the oilseeds are concerned, you will recall that the suspension affected the equivalent of slightly more than 1 million tons of oilseeds. We concluded initially that we did not believe that the Soviets would have difficulty in replacing that. That appears to be the situation.

With respect to meat imports, there were about 65,000 tons of broilers that had been previously destined to go to the Soviet Union. There was an agreement on pork that was in process.

It appeared to us then that the Soviets would probably be able to offset the broilers, but that they might have difficulties offsetting the pork if that trade would have developed.

That appears to be the current assessment.

Insofar as the internal situation in the Soviet Union with regard to meat production, and so forth, is concerned, they appear to have followed a strategy of some accelerated slaughter in January and February which apparently was designed to try to help them squeeze through.

It also appears that they reduced rations fed to animals in that the slaughter weights so far in 1980 have been well below a year ago.

The most recent report—I believe covering May data—indicates that meat production in the Soviet Union was down 6 percent. It was down about 8 percent for pork and beef. Poultry was up. In looking at their inventory numbers, it has been clear that they tried to maintain and increase their inventory of poultry which is a relatively efficient user of feedstuffs.

They have taken most of the shortfall, apparently, in dairy animals, beef animals, and hogs.

All in all, it appears to us that the impacts and the resulting changes in trade flows and feeding practices are very much as we expected they might be.

Mr. BALDUS. On page 7 of Mr. Hathaway's testimony, he refers to the dozen companies that participated in third country sales restrictions. I do not know how to compare this with the amount of international companies that might also be participating and the total volume that they would ordinarily handle or control.

Would it be three-fourths of the total world trade in these dozen countries, or what? I am talking about the American companies who made agreements and not foreign companies who obviously would have no control.

Mr. HATHAWAY. Mr. Baldus, I do not know the precise answer to that. I would point out that there are some very large firms which operate entirely outside the United States. In fact, I think it is also worth noting that some of the firms which did voluntarily cooperate in this matter are indeed foreign-owned and, therefore, we had no legal way of preventing them from doing whatever they wished. There is no U.S. real authority, according to our counsel.

However, I do not have an estimate. There are some amazingly large firms which are relatively little known in the United States, but which handle large quantities of grain from other sources and U.S. grain sometimes as merchandisers.

Mr. BALDUS. Thank you very much, Mr. Chairman.

The CHAIRMAN. Mr. Harkin?

Mr. HARKIN. Thank you, Mr. Chairman.

Personally I have the highest regard for all three of you gentlemen who are here today. However, I think we ought to admit that we are riding a dead horse.

I met with some farmers in my district last weekend. They said the best thing that President Carter could do right now would be to be forthright and come out and admit that the grain embargo was a mistake. There was no way that they could stop that grain from getting to the Soviet Union.

You can say all you want about how much it has hurt the Soviet Union, but the facts simply do not back it up. Everybody else does not back it up, wither.

For example, the Wall Street Journal article the other day included a quote from one grain trader who said: "Embargos never work. They create some hindrance to the grain trade, but they change things very little."

Another one said: "The embargo is leaking like a sieve."

Our own Congressional Research Service, Mr. Secretary, pointed out in a recent report that the Soviet utilization this last year was estimated to be about 228 million metric tons. Their import needs were estimated at about 34 million metric tons, of which 25 million metric tons were to come from the United States.

They say right now that the Soviet Union from other sources, has been able to fill about 30.5 million metric tons of that 34 million tons that they needed.

This means that they are about 3.5 million metric tons short.

Well, if you want to take 40 bushels per metric ton for corn, and if you wanted to use all corn, then that would turn out to be about 120 million bushels. Iowa produced 1.63 billion bushels last year. The amount of grain that we actually withheld from the Soviet Union is less than half the corn crop of my district. And you are telling me that has brought the Russians to their knees?

I am sorry. I cannot buy that.

Another way of looking at it is this. If this has stopped 120 million bushels from going to the Soviet Union, and if the cost estimates that I have seen at about $5 billion, which it has cost us, then $5 billion divided by 120 million bushels comes out to be $41 a bushel. That is what it has cost the taxpayers of this country for that embargo.

Forty-one bucks a bushel. The farmers in Iowa are getting $2.30 a bushel for their corn. And yet we cost the taxpayers $41 a bushel for that situation.

You can say whatever you want, but the fact is the embargo has not worked. It is not working and the President would be well advised to admit it, and to say he has learned his lesson and that we will not put embargos on again.

They are 3.5 million metric tons short. Do your figures dispute that?

Secretary BERGLAND. Mr. Harkin, they do. I would like to yield to Dr. Hjort who is responsible for monitoring traffic in the entire world. He will answer the question on tonnage.

Mr. HJORT. Obviously in listening to you, the figures you are using are referring, first of all, to a July–June year. Much of what the Soviets imported that year came before the suspension.

Mr. HARKIN. That is right.

Mr. HJORT. The second point I would make is this. It is a comparison of the USDA estimate, it sounds to me, of imports from the Soviets from all sources prior to the suspension.

Mr. HARKIN. That is true.

Mr. HJORT. As the cooperation with the other exporters continued and as our other monitoring activities have moved forward, it became evident that the commitments made by other countries to the Soviet Union for this July–June year were in excess of those that we were estimating in December.

The current estimate, adjusting those figures for what had been committed, is that there is a shortfall of 7 million tons. That is precisely the estimate used just after the suspension.

Seven million tons does not sound like very much. But it comes on the margin and it comes in a very short period of time.

Mr. HARKIN. Let me interrupt. If that is true, that would represent about a 2-percent shortfall to the Soviet Union. I cannot believe that a 2-percent shortfall has caused them that much problem.

Mr. HJORT. It does not represent a 2-percent shortfall in the real situation.

There was no shortfall until into February, at least, because ships had been loaded and were still arriving there. The shortfall started hitting them late in February.

By the time the transfers were made out of Argentina and other places—then by May and June—supplies were starting to get fairly close.

However, during a period of that time, they were extremely vulnerable because spring had not yet come, and, in that circumstance, in terms of feed available—not total quantity, but feed available—there was a very significant shortfall.

For that period of time, the shortfall was on the order of magnitude as the one we had after our 1974 disaster.

Mr. HARKIN. If the decision to allow the grain companies to go ahead and sell third country grain to the Soviet Union was transmitted to the grain companies on Wednesday, then why was it not released to the press until Friday?

Secretary BERGLAND. Mr. Harkin, first of all, we knew that the announcement was not a change in policy. We simply reaffirmed what had been said with regard to the grain company compliance with the government agreements of the United States, Canada, and others.

We did not regard the matter as a very substantial one.

If it had represented a change in policy, we would have made a public pronouncement and gone through the usual sorts of activities in that regard.

The CHAIRMAN. The time of the gentleman has expired.

Mr. HARKIN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Hagedorn?

Mr. HAGEDORN. Thank you, Mr. Chairman.

Mr. Secretary, I have no quarrel with the information you have brought us today regarding American grain corporations entering into trading with the Soviet Union with Third World country grain.

I am somewhat gratified that you are not quite so positive as to whether the embargo will continue into the 5th year of this grain agreement. I gather by your earlier statement that there is not an absolute definite decision at this point in time that we are going to

continue the embargo and that there may be some hope for getting this country off the bankrupt policy that President Carter put us on on January 4.

It clearly has brought about, I think, potentially the bankruptcy for many farmers in this country through lost markets. Many of our young farmers have been squeezed out because of the inability to get credit, and, others may have not gotten started.

This is partially due to the decision to embargo grain. I assume that is an accurate assumption that I made that this is not locked in concrete and there is hope for lifting the embargo in the near term; is that right?

Secretary BERGLAND. It depends on the Russians.

Mr. HAGEDORN. Could we clarify that? It depends on whether the Russians do what—move the troops out of Afghanistan? Or, move 10,000 troops out of Afghanistan? Is there no firm policy at all?

Secretary BERGLAND. It depends on whether or not they decide to embark upon a civilized foreign policy, or whether they are bent on pressing their military powers on defenseless neighbors.

Mr. HAGEDORN. I understand that you speak for the administration, but it would seem to me to be reasonably easy to define a civilized society. Is that one that would remove all of its troops from Afghanistan? Or, 10,000?

Secretary BERGLAND. I cannot answer that. I simply do not know.

Mr. HAGEDORN. In your opinion, would a civilized society be one which would take 10,000 troops out of Afghanistan at this point in time?

Secretary BERGLAND. The trend is in the right direction. If, in fact, that is happening, and there are press accounts suggesting it is happening. I frankly do not know what they are doing.

Mr. HAGEDORN. Would you recommend the embargo be lifted if they remove 10,000 troops from Afghanistan at this time?

Secretary BERGLAND. No. I recommend we keep the heat on.

Mr. HAGEDORN. Mr. Secretary, your definition of success compared to what earlier left me confounded because I do not believe the American farmers and the American voters view this embargo as having been a success.

Quite frankly, I believe it has caused unmitigated disaster to our own economy, to the well-being of the American farmer, and has done little to influence the Soviet Union's policies regarding foreign military objectives they have laid down.

What we have succeeded in, quite frankly, is improving the farm prices for our allies. In Canada and Argentina we have this. We saw instances where grain prices improved $40 a ton for Argentina farmers while our own prices went down $8 a ton.

We see today price levels that are just reflecting the preembargo level when the President started discussing imposing the embargo in late December, around Christmas time.

You have succeeded in pushing many young farmers off the land so they are never going to have an opportunity to survive. You have succeeded in lowering the farm income to this point in time today where your own Department admits it could be 35 percent to 40 percent off of last year's earning levels to the point on a constant dollar basis where it approaches depression-level prices.

That is the success the American farmers see and that people in rural America see and in their eyes that's failure. We have small businesses struggling to survive.

That, to me, is what we have succeeded in, which is destroying many of our own citizens and their ability to continue in agricultural production.

I urge you, as a friend, to go back to the President and to look at the facts. The embargo clearly has not worked like anyone envisioned it. Let us get it behind us and then address the Soviet military objectives through more substantive means. That is the way to handle these kinds of problems.

I yield back the balance of my time.

Secretary BERGLAND. Mr. Chairman, let me respond briefly, for the record.

The fact is that the price of corn yesterday was 14 cents above the price on January 4. The fact is that we are going to export a record tonnage of 2.3 billion or 2.4 billion bushels from the United States this year from last year's record crop of 7.8 billion bushels.

Mr. HAGEDORN. Mr. Secretary, you are a farmer. What is the average cost of storing just a bushel of corn 1 month? What is the average cost to store a bushel of grain for 6 months?

Secretary BERGLAND. On my farm?

Mr. HAGEDORN. On your farm or in commercial storage where many of the farmers have their grain.

Secretary BERGLAND. I happen to have an on-farm storage facility. My cost is about 11 cents a year.

Mr. HAGEDORN. When did you build it?

Secretary BERGLAND. In 1970.

Mr. HAGEDORN. What would it be today if you build it?

Secretary BERGLAND. I do not know.

Mr. HAGEDORN. It would probably be 30 cents or more.

Secretary BERGLAND. Maybe.

Mr. HAGEDORN. That is the point. To many of the new farmers who have put up the storage capacity in recent years, their costs are much, much higher than what it is to you when you built the facility way back 10 years ago.

Consequently, we have to look at current costs today in order to reflect the situation.

Secretary BERGLAND. We do that. Over 10 billion bushels of on-farm capacity has been constructed over the years. There is not a need for a great new building program. We think the general tonnage requirements have been met.

Mr. HAGEDORN. Would you agree, then, perhaps in the future that we ought to limit how much grain a farmer can store under these commodity-loan programs?

You are right—many people have cheap storage built and they are reaping profound profits by storing it for the Government on the farms today.

One proposal to look at might be lowering the amount of grain that those large farmers can put under Government storage and reap the large profits and spread it around a little to some of the smaller farmers to make sure they have access and opportunity as well.

Secretary BERGLAND. That is a matter which we are not prepared to discuss. We would be ready to comment on that for the 1981 season.

The CHAIRMAN. The time of the gentleman has expired. Mr. Bedell?

Mr. BEDELL. Thank you, Mr. Chairman.

Mr. Secretary, I am disturbed over your last statement that the price of corn is 14 cents above what it was in January. That implies that the embargo has not been particularly painful, and so on.

As Mr. Hagedorn has indicated, the facts are that on April 15, which was the last figures we had available when I wrote you a letter about this, the price of corn in Argentina had increased by 30 percent while the price of corn in the United States had decreased by 5 percent.

So, it seems to me it is quite clear that indeed the farmers have suffered as a result of the embargo. I would hope that we would not try to defend the embargo by trying to convince farmers that it has not adversely affected them. particularly when we look at the situation in other foreign countries where they have benefited so much by not abiding by the embargo.

Secretary BERGLAND. You will get all kinds of arguments about how much impact a 200 million bushel sale, more or less, in 7.8 billion bushel market is going to have.

I would like to yield to Dr. Hjort, who is keeping the numbers on the Argentine market trends in order that he might respond to that question.

Mr. BEDELL. I do not know that we need to take the time now. But you do not question the figures put out by the Department of Agriculture, which showed that the price of Argentine corn had increased by 30 percent and American corn was down by 5 percent, as of April 15; is that correct?

Mr. HJORT. The quoted prices in Argentina have been as you referred to. One needs to be careful though. That is a quoted price. It is not a transaction price, like we quote here. It does not necessarily mean that it is the price that purchasers have paid for Argentina grain.

Mr. BEDELL. My farmers are more concerned about what they get for their grain than what the people pay for their grain. I know my farmers would even question your 14 cents figure.

I have trouble also with the fact that you say we should keep the heat on. A lot of us do not think there is any heat. It is hard for a lot of us to believe when it is a 3 percent shortfall, and when they are getting it from other countries, and other countries are profiting from it, that it is any thing bad for anybody except our own farmers in our own country.

One question that I want to get to if I can is this. I think you said, Dr. Hathaway, that there is no legal way for us to keep the grain companies from doing what they did.

As I understand it, we spent several hundred million dollars in protecting those grain companies on their contracts that they had with the Soviet Union.

Was there some reason that we could not have demanded that those international grain companies, if we were going to buy those contracts and protect them so they knew they would not lose a nickel, that we could not have had in those contracts that they agreed not to export more from foreign countries than they had exported in the past year?

Mr. HATHAWAY. I suppose technically that could have been written in. I think it would have served no particular purpose, as I pointed out, much as we would like to think. Even some of our companies bragged that they were the only people in the world that do the business.

But there are a lot of other people. If a government decides that it wants to make a product available for export, they are perfectly capable of doing the business.

The object of the whole exercise was basically to deal with effectively restraining the uncommitted grain from the 1979 crop, which was done. There are a number of other companies that operate worldwide over which we have no legal authority that we can find.

Mr. BEDELL. But my point is this. First of all, you did apparently, require them to certify that they would abide by the laws of those countries in which they were serving.

If that is true, then I see no reason why you could not have required that they not increase their individual sales from those countries above what they shipped last year, and if they wanted the taxpayers to protect them for the $5 million—or whatever it was— or the hundreds of millions of dollars, which we did.

If it was worth putting in those contracts, and it would have made sense to do it, and if they would abide by those laws, then certainly you could have gone further and said that they would agree not to ship in excess of what they had shipped in the previous year.

I do not doubt there may have been some leakage, but surely it would have been beneficial to require such cooperation. I am at a loss to understand why there was not an effort to do that if we were trying to hurt the Soviet Union rather than simply to hurt our own farmers.

I yield back the balance of my time.

The CHAIRMAN. Mr. English?

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Secretary, as I was listening to Mr. Hathaway's statement, I was struck by the fact that it seemed to me that this statement was an effort to try to carve out some success in the midst of failure. There is a thin line that you are trying to walk in defining exactly what success is in this case. There is not much left on the landscape to call success.

Perhaps we are at the point where what we are doing here is saying that everybody is happy. The Russians are getting their grain and the USDA is able to claim success. It is kind of like what somebody was throwing out back in the 1960's on the Vietnam war—we ought to declare victory and get out.

It seems to me that is the direction we are going with regard to the embargo.

Do you have any comments you would like to make on that? I am sure the members of the committee are getting that observation.

Secretary BERGLAND. First of all, I would hope that the Russians could declare victory in Afghanistan and go home so that we could resume the normal commercial relationship with them. The sooner that day comes, the better we will like it. We are not satisfied or happy with the current dilemma. It is not a pleasant experience for anybody, including the Russians. I hope the whole bloody business could stop and we could get on to the business of working out more peaceful terms in trade.

In terms of trying to describe this as a success, I do not know how one can do that, but I have to resort to the compared-to-what kind of logic.

There are those who suggest that we ought to stop the Russians militarily. That is an option, obviously. But that is not very peaceful, in my view. The President has ruled that out.

If we were to engage the Russians in military activity, I am quite sure we would not sell any grain, even the 8 million tons.

I suspect that if we resorted to that kind of activity that there would be a curtailment of commercial trade.

Therefore, the other alternative would have been to provide the Soviets with whatever it was they wanted to satisfy their whims and fancies—grains, computer technology, and whatever else.

Where they would have stopped, I do not know. We have gone through this business before as to what in the world they were after in Afghanistan. That was a poor, defenseless country. It was not because they were a threat to the vital interest of the Russians. It was something else.

Mr. ENGLISH. Well, Mr. Secretary. I think you would have to say that insofar as rural America is concerned, and so far as the farmers of this country are concerned, and given their past experience with embargos, that they fully realized in January what this impact was going to mean to them.

They knew it was going to cost them dollars. I do not think there is any disagreement with the fact that it is costing them dollars.

But they went along with it, for the most part. I think the response of the farmer was indeed very patriotic. There was very little criticism either from the farm organizations themselves or from farmers individually.

The President had a victory in Iowa, which is a large farm State, shortly after the embargo.

All of this points to the fact that the farmers certainly did their patriotic duty in responding to the invasion in Afghanistra.

However, now we have this. Last Friday, Jim Websten your Assistant Secretary, was on television saying that the newly announced policy, which is not a change, was coming about simply to give U.S. grain companies a piece of the action. That raises questions, as to why should not the farmers have a piece of the action.

If we are truly turning this thing loose, then, why do we not turn everyone loose? Let us quite pussyfooting around about whether it is or is not a new policy. Perhaps let us declare victory and call an end to the thing if that is what it takes. It seems to me that is the direction we are going anyway.

Secretary BERGLAND. Let me make it clear that the United States and its allies have discussed and agreed to the terms and conditions in applying economic and other pressures on the Soviet Union. Those agreements have been discussed and reaffirmed in the recent summit conference in Italy.

It has not been business as usual. The Canadians and Australians and the Western Europeans and the Eastern Europeans, the United States, and other countries are continuing to impose sanctions on the Russians. The grain companies are required to abide by the rules imposed by the host governments.

Mr. ENGLISH. Let us tie it close to home. Let us get t down to you.

On January 29 you testified before this committee that the Soviets would be able to import no more than 23 million tons of the 35 million tons which they had hoped to import.

On May 1 you testified again before this committee and you stated at that time:

> Because of the determination of the United States and the cooperation of our export partners, we would deny the Russians 7 million tons of the 37.5 million tons that they had planned to import.

In a 4-month period of time, the Russians seem to have picked up about 7 million tons. The question now, 60 days later, is: Is there a new set of statistics? Are we now up to, instead of 30 million tons, the 35 million tons that the Soviets had intended to import all along?

Secretary BERGLAND. Most of this is due to the crop year definition. Mr. Hjort has the exact numbers for you.

Mr. HJORT. The current estimates for the July–June year are a shortfall of 7 million tons. That is the figure you just read. That is the May statement of the Secretary.

The current estimate for the marketing year, or for the agreement year, is a shortfall of 11 million tons. The figures you gave had a 12 million ton shortfall.

Our whole purpose in coming forward with this is that we know there has been a widespread perception that there is widespread leakage and nobody expected it and all of that and that it is abnormal.

The fact is that the shortfall is very, very close to what we indicated it would be right after the action was taken.

The numbers are there, but what you are referring to are two different times.

In the January statement, you are referring to the agreement year. That is October–September. The second statement you referred is the July–June year. The July–June year estimate is precisely the same as the one you just quoted back in May. It is the same as was used back in January.

There is a slippage of 1 million tons from the January estimate for the October–September year.

Mr. ENGLISH. You are still back to the same thing, trying to define a victory. I think that is the bottom line. There is no victory.

Mr. HJORT. I am not trying to do that. I am trying to say that our estimates, based on the best intelligence available to us in June, are still very close to our original estimates made back in January.

I am not claiming anything other than what we claimed then.

However, there is the perception that something very different from our assessments has happened and that the Soviets are getting everything they need. That is not the fact.

The CHAIRMAN. The time of the gentleman has expired. Mr. Coleman?

Mr. COLEMAN. Thank you, Mr. Chairman.

Mr. Secretary, in answer to a previous question, you said that because of the embargo there was unrest in the Soviet Union. Can you give specific examples and evidence of such unrest?

Secretary BERGLAND. Mr. Coleman, I have not been there nor have we had a high level policy team in the Soviet Union since this whole business occurred on January 4, so we do not have any official tracking.

We do, however, read news accounts published by persons who have been there—private citizens mostly—and reporters and others who are commenting on the conditions in the Soviet Union.

Our information, admittedly, is from unofficial sources.

Mr. COLEMAN. I assume, then, that our intelligence gathering apparatus has not provided your office with any evidence of any rioting or unrest because of the curtailment.

Secretary BERGLAND. We have had no such official information, but we do have official information from the Russians on food output, showing a decline in milk production and an increasing in the slaughter of certain classes of livestock.

Mr. COLEMAN. Do you consider the United States-Mexican agreement, which was signed on January 16 of this year, to be a government-to-government sales agreement?

Secretary BERGLAND. It is not.

Mr. COLEMAN. Would you explain? It has been widely reported in the press as being such. Would you please tell us your thoughts as to why it should not be considered a government-to-government sales agreement?

Secretary BERGLAND. I will yield to Dr. Hathaway who negotiated with the Mexicans.

Mr. HATHAWAY. The Government in Mexico discovered approximately at the end of the year that due to very bad crops, their shortfall was substantially larger than they had anticipated.

They then came to the Department of Agriculture and asked us to work with them in order to substantially increase the quantity of imports that came in, that could be available to Mexico.

This goes back, I might say, to an earlier experience that we had with them in which they found they were quite short of beans. They were having a great deal of difficulty.

We brought together members of the dry bean industry in the United States with their purchasing agent and, in essence, arranged for a very large sale, which obviously was in the best interest of both parties.

In essence, the Department of Agriculture, in that agreement, is viewed both by ourselves and by the Government of Mexico as a facilitator of their purchasing activities. They have been taking open bids.

Mr. COLEMAN. Is this the January 16 agreement you are talking about?

Mr. HATHAWAY. Yes, exactly. I think if you look at the January 16 version, I, in fact, signed it and the Secretary did not.

Mr. COLEMAN. Let me ask you a question. I have in my hand something entitled, "An Agreement for the Supply of Agricultural Commodities Between the United States and the United Mexican States," which is a 2-page document, dated January 16, 1980, with Secretary Bergland's signature above yours.

Is that what you are referring to?

Mr. HATHAWAY. That is right. I initialed it.

Mr. COLEMAN. Let me read you the first sentence. It says: "The Government of the United States of America through the Commodity Credit Corporation hereby agrees to sell or arrange for the sale to the Government of the United Mexican States, during the calendar year 1980,"—and it lists the commodities involved.

The next to the last paragraph says: "The Government of the United States assures the Government of the United Mexican States that it will utilize the full scope of the legal authority of the Commodity Credit Corporation to provide, directly or indirectly, these commodities, as well as other commodities mutually agreed upon."

You are telling me that is not a government-to-government agreement?

Mr. HATHAWAY. I am telling you that as it is operated, the operative term is "or will facilitate." And we have assisted the Government of Mexico in carrying on open tenders which are available to all of the private firms and co-ops in the United States.

That bid is done on an open basis. The only government sale is a very modest amount. I take it back. We have sold nonfat dry milk periodically to the Government of Mexico out of CCC stocks. This has been going on for about a decade and a half.

Mr. COLEMAN. Let me clarify. This is not a change in direction of policy then, this Mexican agreement?

Secretary BERGLAND. Yes, it is. It is a change. This administration embarked upon an ambitious program of market development the world over. We need the diplomatic and political and powers of persuasion of the Federal Government to help open doors.

As a consequence of this activity, our exports are booming and running 17 million tons ahead of last year. In the case of Mexico, the usual trade; that is, the exports to Mexico were running around 3 million tons a year. This year it will run 9 million tons or more.

Mr. COLEMAN. I sent you a letter recently which I hope you will respond to. The questions on this Mexican agreement are there. At least the press reports indicate that you are favorably inclined to negotiating the so-called string of bilateral commodity trading agreements with foreign countries. This was an article in the Wall Street Journal. It was also in the Kansas City Times.

If that is not your impression, I would like to have you set the record straight.

Secretary BERGLAND. The articles are correct. It is precisely what I have said, indeed.

We are looking, at the moment, to the feasibility of extending the Soviet grain arrangement. It runs out the end of October, or the beginning of October 1981.

The question is: Should we extend that agreement? If so, what about other countries that have expressed a similar interest in an agreement like we have had with the Soviet Union? Therefore, I have indicated that we are examining those opportunities completely.

No decision has been made, but we are looking at it as a means by which we might enter into a supply contract such that we could minimize the security aspects of the trade without some understanding.

Mr. COLEMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Fithian?

Mr. FITHIAN. Thank you, Mr. Chairman.

Mr. Secretary, Dr. Hathaway, and Dr. Hjort, we welcome you.

I will not reiterate what has been said about the actions that have been taken by the Government since the grain embargo. You will recall that I strenuously opposed the embargo initially. I have been consistent in that opposition and consistent in my belief that the American farmers will be hurt, not only this year, but on down the way for the next several years more than the Soviet Union.

I am happy to see that the administration has pushed hard on the 4-million-ton wheat reserve, the emergency food reserve. I think that accounts for 4 million tons.

From thereon, it gets a little mixed. I do not think we have put anything like the muscle that we ought to in the Public Law 480

program. Hundreds of thousands of people are starving to death. We are wrestling with too much grain. I have great difficulty in squaring that in my conscience.

As you know, I continue to be very critical of the Department in its failure to move as rapidly as I think it should on the alcohol fuels front, where a part of this grain could go.

That is a quick summary of where I am coming from.

I have one question about the testimony of Dr. Hathaway. Perhaps, Mr. Hathaway, if you would refer to page 8, I am a little confused by the top paragraph on that page. I wanted to pin that down a bit.

I am picking up from a lot of our farmers—and in a moment after we have conferred on this paragraph, I would like you, Mr. Secretary, to make any comment you would like.

The farmers, I think, responded nobly to the embargo, which was not in their interest because of patriotism and because of their willingness to help stand up to the Russians. But I think they responded so positively because the President said we would not let the burden come to bear or fall on the farmers.

They now do not believe that commitment has been kept.

In that conjunction, they are very critical, partly and rightly so, in some cases, I think it was necessary.

They are critical of the action of the Government in seeing to it that the grain companies can continue; that is, the original purchase of the contracts which I realize stabilize the market.

Then there is a more recent action. They get the feeling that the Government is not fulfilling its commitment made by the President to the equal burden principle. They feel that they are bearing the burden. The grain companies are not, the taxpayers are not, and everybody else is not, is what they think.

Now, Dr. Hathaway, with regard to the top paragraph on page 8 of your prepared statement, you say: "I hope this explanation clears up the several misconceptions about what has happened; the rationale for our limited short-term request to the export companies * * * ."

What does that mean?

Mr. HATHAWAY. Basically, at the time of the request, it was to deal, as I have mentioned in my testimony, with uncommitted 1979 grain.

With the 1980 crop, countries' official policies regarding exports would become the dominant factor. There would not be that uncommitted grain that would be available.

Mr. FITHIAN. Then your last phrase is: "* * * and why our interests are no longer served by these restrictions."

What is that?

Mr. HATHAWAY. It has no purpose.

Mr. FITHIAN. I am not clear on the basic reference point. What restrictions were you talking about?

Mr. HATHAWAY. Our request to these firms, which appeared to hold something on the order of 2.5 million tons of "uncommitted grain," which they could officially and legally sell to anyone in the world, and to dispose of that to other than the U.S.S.R.

In other words, for these companies to buttress our intergovernmental efforts. That request to these companies is no longer relevant now at the start of the 1980–81 marketing year because Government policies are in place.

Let me be explicit.

There was, in that quantity of "uncommitted grain" a substantial quantity of Economic Community grain declared last October and November for restitution worldwide——

Mr. FITHIAN. May I interrupt?

My question is more basic that that. The restrictions you are talking about pertain to third country sales rather than restrictions on sales to the Soviet Union?

Mr. HATHAWAY. Right. Third country sales only.

Mr. FITHIAN. I see.

Mr. HATHAWAY. Let me make one further comment.

I looked somewhat pained when you mentioned our failure to act on Public Law 480. I looked pained because we have had a request for a supplemental before the Congress on that issue since November.

We have an immense amount of commodities. We all agree on that. We have people who are not eating around the world.

We have sent endless letters requesting that there be action on that supplemental. I know you have been most helpful in moving that. We appreciate that, but I wonder.

Mr. FITHIAN. Will you call Mr. Brzezinski and get him lined up with the rest of it? He is going off in 180° from you and I and the State Department and the AID program and all the rest of it.

They called me at home the other night. We are not sure they could even support my amendment, which happened to be the administration's amendment to start with. [Laughter.]

If we are having difficulty——

Mr. HATHAWAY. I can make all the calls that I find necessary. This is very difficult.

Mr. FITHIAN. There is a struggle for the $42 million now on the Senate side. I have been informed, as of yesterday afternoon, that the AID people are now prohibited from doing any lobbying or any pushing on the Senate side to get the $42 million through, which I did get through in my amendment on the House side. It is a mixed record, is why I say that.

Mr. HATHAWAY. We appreciate your help. [Laughter.]

The CHAIRMAN. The time of the gentleman has expired. Mr. Richmond?

Mr. RICHMOND. Thank you, Mr. Chairman.

Mr. Secretary, I am supportive of the President's embargo on grain shipments to the Soviet Union. I believe many urban people agree with my position, but I would like to discuss the ability to use surplus grain in this country for purposes other than export and other than domestic consumption, namely, gasohol, that is what I would like to talk about.

We know Brazil and the Philippines are way ahead of us as far as gallons per month of production are concerned. I think their production of gasohol is way ahead of ours.

They have recognized the need for producing gasohol before we did. They have been converting their sugar into gasohol. That is why the price of sugar internationally is so high. The Brazilians and the Filipinos realize that it is much better for them to use their own sugar rather than export it.

What plans do the Department of Agriculture have to use massive quantities of our surplus grain? We are going to have surplus grain for some years to come. Apparently we will have a good harvest this year.

What plans do we have to radically speed up the production of gasohol throughout the United States? Do we have no plans?

Secretary BERGLAND. The limiting force in this matter is refining capacity. We have plenty of grain on hand. The demand is obvious. It is a matter of building factories to produce the alcohol.

Last year about 90 million gallons was produced for the motor fuels market. The manufacturing capacity is being doubled this year. It will be 200 million gallons. As near as we can tell, it will double again next year.

Where this will ultimately end, I do not know. But the critical link has been the building of factories to process the grains into alcohol.

Mr. RICHMOND. How long will it take before we have adequate factories? There are a number being built right now?

Secretary BERGLAND. Yes, sir, there are. There are a number. I do not know the exact number, but it is in the hundreds of mills being built or in the advanced planning stage.

Mr. RICHMOND. It appears that the amount is this. Once the production of gasohol is possible for a dollar a gallon, it becomes commercially feasible; right?

Secretary BERGLAND. Yes, it does.

Keep in mind that the Congress only recently passed the necessary language to attract private money into the business.

For example, the 4-cent-a-gallon Federal excise tax postponement has been a very strong persuasive incentive, which has now lined up a substantial amount of private money.

We think this is an industry that can fly in the private sector with very modest Federal aid.

Mr. RICHMOND. And also help the farmer out tremendously.

Secretary BERGLAND. Right.

Mr. RICHMOND. What will be the main product that gasohol will consist of? Corn?

Secretary BERGLAND. For the moment it is corn, but we are deeply into high technology in the so-called microbiologies. Our scientists are convinced that we will find a way of converting cellulose directly to alcohol through the science called genetic engineering in a way that will not require distillation.

When that is achieved, we obviously then will have broken through a major barrier and will be on our way to an industry which will allow substantial tonnage of motor fuels derived from cellulose.

Mr. RICHMOND. Meanwhile, with our enormous surplus of corn throughout the country, and the probability of another bumper corn crop this year—am I right?

Secretary BERGLAND. It is too early to tell about this year, but it will be somewhere between 6 billion and 8 billion bushels, we think.

Mr. RICHMOND. Which is a large crop if you add it to the other.

Secretary BERGLAND. It will run about 7.2 billion or 7.3 billion bushels, so it may or may not be adequate.

Mr. RICHMOND. Assuming it is adequate for our needs, we are going to have surplus grains on hand. So, is there a chance within the next couple of years that the manufacture of gasohol will take up the slack due to the Soviet embargo and due to anything else that might happen?

We could get our farmers back into making money on the corn and again planting as much corn as they can.

Secretary BERGLAND. That, we think, is largely a function of the supply of corn. I know of many mill operators who are aware of the fact that corn consumption this year will be at an all-time record high.

They are aware of the fact that corn exports will exceed all previous records by at least 300 million bushels. They are wondering about what the future holds.

There are many persons asking me about what I think will happen as the world food requirements double in the next 40 years. They want to know the implications of that might be as they decide whether to invest hundreds of millions of dollars in a plant.

Mr. RICHMOND. So you feel, therefore, that the ultimate consumption of corn for gasohol is not the great saving that I would hope it would be to the farmer; right?

Secretary BERGLAND. The primary market for U.S. corn will continue to be livestock.

Mr. RICHMOND. Except that we have seen the case in Brazil and in the Philippines where they have finally been able to make real money out of their own surplus crops by converting that to gasohol.

Secretary BERGLAND. Brazil and the Philippines have no oil of their own. So far as I know, they have no indigenous energy resources other than sugar, which is being converted to alcohol.

But keep in mind this. They have had $3 a gallon gasoline in their countries for a long time. The United States has had 35 cents a gallon.

Mr. RICHMOND. That is because of internal taxes and not because of export costs.

Secretary BERGLAND. It is both, of course, but neither of those countries have their own indigenous fuel source. So, they have launched into an alcohol program, partly to defend themselves in national security matters.

Mr. RICHMOND. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Grassley?

Mr. GRASSLEY. Thank you, Mr. Chairman.

To what extent have the Argentines participated in our efforts to limit sales to the Soviets? Is the administration satisfied with the cooperation they received?

Secretary BERGLAND. May I yield to Dr. Hathaway who has negotiated with the Argentines on this matter?

Mr. HATHAWAY. The Argentines stated, and continue to state, that they will take no government action directly to assist the Soviet Union in obtaining supplies from the Argentines.

Neither will they reimpose a policy of some years ago of direct control by the grain board over all export destinations.

In answer to your question, they have participated fully in the meetings and discussions. We think their actions are not crucial to the activities. We wished that their government policy was such that they could find it possible to reimpose direct control of grain export destinations.

However, they have not found it as such.

Mr. GRASSLEY. Then you are not satisfied with the cooperation you have received?

Mr. HATHAWAY. We wished they had been able to implement policies that would have had more direct controls. Their Government has systematically removed the Government intervention in a variety of

markets. They consider that removing the grain board control, which affected specific involvement in all destination, as an important part of their policy.

They apparently intend to continue to pursue that.

Mr. GRASSLEY. Inasmuch as they are not cooperating with us, can you tell me how much of their current crop has been sold to the Russians? How does that compare to what they sold the Russians last year?

Mr. HATHAWAY. I could ask Mr. Hjort to answer that. I believe he has the statistics.

Mr. HJORT. In the absence of the suspension, we expected the Argentine grain that would go to the Soviet Union would be on the order of 3 million tons.

It now appears that it would be about 2.5 million tons more than that.

Mr. GRASSLEY. Two and one-half million tons more. But how does that compare with what they sold the Russians last year? If you did answer that question, then I missed the point.

Mr. HJORT. It is sharply above last year. Last year the United States was, by far, the dominant supplier of grain to the Soviet Union. I do have that figure here somewhere.

Argentina's sales in the 1978–79 year, July-June year, were 1.4 million tons.

Mr. GRASSLEY. Our grain embargo, then, has been very successful for the Argentine farmer. What is our Department doing to take action to offset the effects of the embargo?

For instance, are you increasing funding for the market development efforts overseas?

Secretary BERGLAND. Yes, we are. In the case of the Argentines, let me say this.

They have increased their sales to the Russians at the expense of their other customers. These are primarily the Japanese, Italians, and Spanish. We have gone after those customers. They are now our customers.

We intend to hang on to them, but we have increased our market development efforts. Our exports are way up. We are 300 million bushels ahead of all time record exports in corn and 100 billion bushels ahead of the previous record in soybeans. Cotton exports are booming. Our markets are growing.

Mr. GRASSLEY. What is the point of the embargo if the Russians are able to get the grain elsewhere?

Secretary BERGLAND. They are not. Mr. Hjort?

Mr. HJORT. They have not been able to obtain all of the grain that they desire elsewhere.

I might add this. On the Argentine case, their total exports of grain in this year will be less than we were estimating in December. Their corn crop was adversely affected by some dry weather.

Therefore, although their total exports to the Soviet Union are up sharply and above what we expected, nevertheless their total is down.

In consequence, ours are up.

Mr. GRASSLEY. Mr. Bergland, I understand the need to respond to the Soviet invasion of Afghanistan. But, in reading Washington Post reporter Dan Morgan's book, "*Merchants of Grain*," I noted that Morgan wrote that in 1975 Under Secretary of State Charles Robinson

attempted to forge an agreement with the Soviets to exchange our grain for their oil. Of course, we wanted a discount on the oil.

I read from page 273:

> The daily scenario became familiar. Robinson would meet with Foreign Trade Minister Nikolai Patolichev and advise that there would be no more U.S. grain without oil. Patolichev would reply that his countrymen would "starve to death" before they succumbed to any such political pressure.

Mr. Secretary, if the Soviets were willing to starve before giving us a break on oil, why did the administration think an embargo could have any effect on their military operations?

Secretary BERGLAND. The question in the whole matter is this: Should we try? Should we let the Rusians run unbriddled?

We did not invite this unpleasant business. The action which was taken was arrived at by the process of elimination.

The President had about three choices. One would be to break off all ties with the Russians and engage in war. Fortunately, he ruled that out.

Second, would have been to endorse the Russian invasion of Afghanistan and join them someplace else, I presume, at some later date. That is a very dangerous course of action.

The third was to do what he did.

The CHAIRMAN. The time of the gentleman has expired.

The Chair at this time would ask other members who have questions to raise their hands?

[Show of hands.]

The CHAIRMAN. Mr. Huckaby?

Mr. HUCKABY. Thank you, Mr. Chairman.

Mr. Secretary, earlier this morning you made the statement that you felt it was in our interest to help keep the heat on the Russians.

How does letting major U.S. grain trading companies trade with Russia help keep the heat on the Russians?

Secretary BERGLAND. I could not hear the question.

Mr. HUCKABY. How does letting major U.S. grain trading companies help to keep the heat on Russia by letting them trade through third countries?

Secretary BERGLAND. The President has secured an understanding on the part of his western colleagues, the Canadians, the Australians, and the Western Europeans and others, that the west will provide the Soviets a solid united western front so long as they engage in this madness in Afghanistan.

The grain companies that trade in the world are bound, then, by the terms and conditions laid down by these governments. The Canadian Government, the Government of the United States, and others have agreed on what we will do.

Mr. HUCKABY. We agreed that it is good for the grain companies to trade with the Russians?

Secretary BERGLAND. We agreed it is good to keep the heat on and are going to allow the sale of the usual and the traditional. In the case of the United States, it is 8 million tons.

Mr. HUCKABY. Dr. Hathaway, how many American companies are involved in trading with the Russians?

Mr. HATHAWAY. At any given time it varies. Do you mean how many were involved in the sales that were suspended last year?

Mr. HUCKABY. Yes.

Mr. HATHAWAY. I belie ve there were 13 which had direct contracts.

Mr. HUCKABY. Could you name the three or four major companies that were involved?

Mr. HATHAWAY. They are not all American. There is Continental, Cargill, Dreyfus, Garnac, Philip Brothers, Tradigrain Farmers Export, Goodpasture, Pastunak/Baum, Tidewater, Central Soya Toepfler, Bunge; did I miss any?

Mr. HUCKABY. I think you got them all.

Did any of these companies suffer any economic loss whatsoever as a result of the grain embargo?

Mr. HATHAWAY. My impression is that a number of them suffered substantial losses as a result of the embargo.

Mr. HUCKABY. How much?

Mr. HATHAWAY. I think they could answer that individually. There was no compensation for them for shipping contracts that they had made, or for barge contracts that they had made, and for a whole variety of things.

They fulfilled those contracts. Thus, I am sure they suffered some losses, but I do not have an estimate of those. The individual companies will have to tell you about their individual situations.

Secretary BERGLAND. In addition, Mr. Huckaby, let me say this. The agreement is that we will deduct any profits they otherwise would have earned. We will deduct any net short position that they had on the day of the suspension.

Mr. HUCKABY. Have you done it yet?

Secretary BERGLAND. We are auditing their books now; yes.

Mr. HUCKABY. That would certainly be interesting. I would be interested in seeing the results of that.

When the President announced the embargo he said that the American farmers were not going to suffer and that all of the American people would bear the cost of this.

Do you feel this has been carried out?

Secretary BERGLAND. Yes, I sure do.

Mr. HUCKABY. How do you expalin that on the day the embargo was announced, November futures for new crop soybeans, were selling at $7.43 and they have continued to decline? They got down to $6.40 and they presently are $6.60. That is almost a dollar a bushel——

Secretary BERGLAND. It had nothing to do with the Russians. The world produced a tremendous crop of edible oils last year and the markets are depressed.

Mr. HUCKABY. The supplies were known in January. You do not think there was any psychological effect that made all the grain markets tumble from January, February, and March?

Secretary BERGLAND. I am sorry?

Mr. HUCKABY. You do not think the psychological effect caused these prices to decline? We already knew what the markets and inventories were.

Secretary BERGLAND. There is some speculation in these markets, obviously. They are driven by forces that have nothing to do with supply and demand. That is one of the factors that frustrates me from time to time.

However, the price for soybeans started to drop last June, I think it was. Was that not the high mark?

Mr. HJORT. Yes. it was June or July of last year.

The fact is the market did not know what the supply of soybeans would be for this year. The Southern Hemisphere crops had not yet been harvested.

As we went from December into January and February and March and as those assessments were made of the Brazilian and Argentine crops, each time they were raised. The crops, in fact, did turn out in Brazil to be very good, but not exceptionally good in Argentina.

However, that part of the world supply for the 1979–80 year was not known. As that became known, it was a price depressing factor.

Mr. HUCKABY. I have one final question.

Can any of you gentlemen offer me some words on this? When I talk with my farmers this week in Louisiana, can you tell me how I would explain to them that it is good to let the big American trading companies trade with the Russians, but it is not good for their crops to go to the Russians?

Secretary BERGLAND. When you talk about the matter with your constituents, I am sure you will discuss the fact that the United States will be shipping them 8 million tons and that there is no other country in the world that will ship anywhere near that amount of grain to the Russians and that they are good customers, but they are a lot more interesting than they are important.

The Japanese business will be twice as big and the European business will be 10 times as big. Exports are booming and running 17 million tons ahead of their previous all-time record high, generating $38 billion in new foreign exchange.

Business is exceedingly brisk.

We do have a huge crop from last year to digest. It is almost 8 billion bushels of corn and over 2 billion bushels of soybeans. It is the biggest crop in history.

In fact, the world has produced three bumper crops back-to-back. Most of my predecessors have had the fortune, for better or worse, to preside over a drought which has stimulated markets frequently in the past decade.

But the past 3 years we have had good weather conditions and growing conditions have produced this big crop. Therefore, we have seen some depression in prices.

Mr. HUCKABY. Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Glickman?

Mr. GLICKMAN. Thank you, Mr. Chairman.

Mr. Secretary, do you have any idea what the internal costs at the Department are in implementing and operating the grain embargo? Is there any way to allocate those costs?

Secretary BERGLAND. May I yield to Mr. Hjort?

Mr. HJORT. I did not bring the precise figures along with me, but as you will recall, between $2.5 billion and $3 billion were made available for the offset actions for the two fiscal years, 1980 and 1981.

The total commitments that we have made so far this year are likely to be on the order of an additional $2.8 billion for the offset actions.

Mr. GLICKMAN. My second question is on cost of production.

The USDA cost of production study estimates that the cost of producing a bushel of wheat is about $5. I am not sure what study it is, but I have seen the figures.

Based upon this and related findings, are you currently considering any increases in the support prices for wheat or feed grains?

Secretary BERGLAND. Yes, we are.

Mr. GLICKMAN. When do you expect we would have some reasonable idea as to what recommendations you are going to make?

Secretary BERGLAND. Mr. Glickman, we filed a report with the Senate committee, which is a routine report, on the estimates and change in production costs. It does show what everyone has known, namely; that the price of fuel has doubled in the past 12 months and the cost of fertilizers and pesticides and interest charges and transportation are all up.

As a consequence, the variable component of the production formula is up from 20 percent to 40 percent, with various States and various crops changing the numbers some, but they are up.

We are looking now at a variety of bills, some reported by this committee and some by the Senate, which are designed to compensate producers for this inflation.

We are favorably inclined toward an approach which would increase the loan rate for those persons in reserve. It is not a matter of debating it on the merits. It is a matter of financing it.

How we come up with the money and still balance the national budget and maintain our defense commitment is something that we have not yet discovered.

Mr. GLICKMAN. But it is a fair statement that you will be favorably inclined to recommend some increases in the support prices; is that right?

Secretary BERGLAND. If we can find a way to finance it; yes.

Mr. GLICKMAN. I think we probably will find a way to do that, but I am gratified by your statement.

My last question is this.

There has been some discussion about setting up a joint U.N.-moslem peace-keeping force in Afghanistan that would provide the Soviets with a face-saving measure to encourage them to withdraw from that country.

But what effect would such a peace-keeping force or a similar move have on the embargo?

You must have some reasonable knowledge to see what specific actions would stop this thing.

It would at least let the people know the embargo is stopped.

By the way, people in the country believe the embargo has been lifted. And based upon what you said today, it has not been lifted.

Secretary BERGLAND. It has not been lifted. There were some erroneous press accounts published last week which, of course, we cannot control, as you know.

I am not able to comment on the matter of what kinds of conditions must be obtained before the President can find that our vital interests are no longer in jeopardy. I have not talked with the President since he left the United States for his summit tour. He will be back tomorrow night. We will have an opportunity to discuss this matter in great detail.

I simply am not able to comment on your general proposal.

Mr. GLICKMAN. But at least at the present time nobody has given you any guidelines as to what circumstances would have to occur when you drop the embargo; right?

Secretary BERGLAND. There are no guidelines; no. Not in specific terms; no.

Mr. GLICKMAN. Then, in general terms?

Secretary BERGLAND. The general condition is that the President must be able to find our vital interests are no longer in jeopardy.

Mr. GLICKMAN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Hance?

Mr. HANCE. Thank you, Mr. Chairman.

Mr. Secretary, I appreciate your explanation to Mr. Huckaby. The problem is this.

Last week we had people in agriculture—that is, the news media reported it as seeming like it was the opposite as to what you were saying. It was coming across as saying that this is a policy where we will allow the multinational grain companies to sell grain from other countries but not from the United States. It was somewhat upsetting, as you can imagine.

I do want to point out something that I think is very important. You appeared before us on May 1. I went through some figures at that time which I would like to touch on briefly.

I checked this morning with the elevators in my district. We sell on the hundredweight in our area. Corn on January 3 was $5.05; on May 1 it was $4.60; and today it is $4.35.

Wheat was $4 a bushel on January 3. It dropped to $3.30 by May 1. It has come back a little. It is $3.50 today.

Grain sorghum was $4.30 on January 3; $4.15 on May 1, and it is $3.95 today.

The figures that Mr. Glickman alluded to awhile ago are USDA figures on cost of production. Looking at those figures, the cost of production on corn for this year, using your estimates—I think if anything you are conservative—would be on a hundredweight $5.45. On wheat it would be $5 a bushel and on grain sorghum it would be $6.71 per hundredweight.

The thing that I want to ask you is this. I think this is very important.

H.R. 6815, which is the 65 percent of parity bill, which I have an amendment on, would set the loan price at 65 percent of parity. Sixty-five percent of parity has a loan price of $4.07 on wheat. That would still put you 93 cents below the cost of production this year.

I realize the problems you are talking about in terms of budget. But if we could agree to amend the loan price to go into effect next year, so you would not have such budget problems in 1980, I wonder about that.

It would be almost impossible to get anything passed.

But would the administration support legislation that would amend it so it would go into effect in 1981 at 65 percent of parity?

Secretary BERGLAND. We are examining that proposal as well as other alternatives to assist farmers through the present financial dilemma very carefully. One under particular review is to increase loan rates for grain farmers place in reserve. We think it has a great deal of merit.

There are many problems with ways of financing the matter, however.

The 1980 fiscal year is about to close, but the 1981 budget is now pending. It is a precarious proposition. It is in balance, but barely. No allowances have been made for the kind of expenditures that your bill calls for.

Therefore, we would have to find some way of accommodating that cost.

It is true that your bill does not put a permanent burden on taxpayers, but it does call for an outlay. We have to write checks against Treasury. That shows up in the budget.

It is reported as an expense which is really a misnomer.

Mr. HANCE. The other thing I would touch on is this. It seems that if foreign policy and if agriculture is going to be used as a tool of foreign policy, then we have a duty and obligation to make sure that agriculture does not get hurt.

In looking at figures of cost of production, the across-the-board average is 24 percent. I think that is pretty conservative.

However, the cost of production has just been astronomical.

The one thing I want to leave you with is this. People are talking about the automobile industry having problems and the homebuilding industry having problems.

But I can assure you, in visiting with the farmers on weekends in my district, that agriculture has the most severe problems of anyone in America today.

I hope you will look at these loan price increases and do everything possible to give us some relief.

Secretary BERGLAND. Mr. Hance, we will do that.

The CHAIRMAN. Mr. Stenholm?

Mr. STENHOLM. Thank you, Mr. Chairman.

Mr. Secretary, all the questions that I had down to be asked have already been asked and answered.

I would like to make a few observations and get your comments on my observations.

I fully agreed with you when you indicated that the embargo should be continued. I fully agreed with you when you said that the question of implementing the embargo on January 4 after the invasion of Afghanistan had a question as to: Should we try? I supported that, and I support it now.

But where I disagree is here. I am coming off my support for the embargo very strongly here. My opinion is that we should try, but if we are going to try, we ought to try to win.

Based on all the questions asked today, when you state that Argentina has gone into the Soviet market, and when we find they are going after the market at a greater profit than what the American farmers are able to get because their price levels have increased, then I wonder.

There was some disagreement over how much, but I think we agreed it had increased. Then you say we have gone after that market that they have abandoned in order to go after the Soviets. We have gone after Japan and we have gone after it at a cheaper price because our grains have come down. Therefore, we are going after a less profitable market than what the Soviets were offering to the Argentines.

The analogy of Vietnam comes in. We fought a war we did not want to win. Now we are fighting an embargo and we do not want to win.

Therefore, let me say this. I, as a farmer, do not want to sell one bushel of the wheat crop that we are making in Texas right now to the Soviet Union for $3.40 a bushel.

I would like to see us put the embargo on completely on everything or not at all.

We have done this to the American athletes. We have told them: "You young men and women. It is a complete embargo. We are not saying that half can go and half can stay back."

That is what we are saying when we say we are going to honor the contract and the treaty.

Therefore, I am saying the toughest questions I am getting are these. They are not from my farmers. They have been asked these tough questions for so long about prices and what we are doing to agriculture they are tired.

The young people are asking me this in high schools. They are asking: What is the consistency of a policy that would embargo totally the American athletes and part of the American grain and then come out with an explanation that is impossible to fully appreciate where we say we are now going to have a change in policy, which we have said is not a change in policy?

The American grain companies can now go sell their grain so long as it is not American grain. What about that?

Secretary BERGLAND. Mr. Stenholm, the grain companies will also be handling the 8 million tons from the United States, subject to our licensing requirements and procedures, of course.

They are bound by the policies of the Canadian Government in handling Canadian grain, and so it goes on and on.

The restraints have not been lifted. Let me make that clear.

On the matter of whether we should have a total ban on trade with the Soviets, I can assure you that this is a matter which was debated with the President in the meeting place in early January.

The argument had to do with whether there should be a complete break with the Soviets.

It was decided that we needed to maintain a corridor with which to discuss a number of matters with the Russians and that it would not be advisable, therefore, to break diplomatic relations or to break government agreements in contracts and treaties that we have in force with the Russians.

It was decided to maintain those corridors.

We hoped that the Russians would come to their senses and that we could resume a more normal relationship.

Whether that will ever happen or not, I cannot speculate. I just do not know.

But it is our belief that we did need to try and that we did, however, need to maintain the necessary contacts with the Russians and, in some cases, private, so if we could see if we could work out some negotiated settlement to this madness.

Mr. STENHOLM. It is a tough issue. I admit that.

As I said, in my opinion, we ought to get on or get off. We ought to take a look at just exactly what we are trying to do with the Soviet Union and Afghanistan and then send the message clearly to everyone and not just the American farmers and the American athletes.

They are accepting the greatest brunt of what we are attempting to do.

I have one last observation. I have heard and seen in the testimony that we have no legal authority to do anything to foreign countries operating in this country. I heard the same argument given by members of the State Department when they appeared before Members of the Congress where they said they could not do anything to the boat captains of those many Americans who saw a way to make a tremendous windfall profit in a hurry by transporting Cubans into this country.

We were told we could not touch those because it was free enterprise.

I ask this and I hope you will carry this back to the President: If we do not have authority to make those types of decisions, then explain to me, in language I can understand so that I can go back to explain to the wives of two of my constituents whose husbands are serving time in the penitentiary for illegally transporting Mexican aliens into this country.

That was the question I asked the State Department. They did not have an answer, nor have I ever been given one. In fact, a few days after that we began to implement the law.

We stopped the movement of Cubans into this country. It is a shame we did not do it earlier.

That is the gist of what I am trying to say on the embargo. Let us take a good hard look at it. If it is working, let us do it, but do it totally.

If we agree that it is questionable whether it is working, and if it is only affecting a few, then let us stop it.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Secretary, I think that concludes all the members who had questions for you.

On behalf of the committee I want to thank all of you very much for your presence. Your testimony has been both useful and important. Mr. Coleman?

Mr. COLEMAN. Mr. Chairman, I have a unanimous consent request.

I ask unanimous consent that I be able to submit written questions to the Secretary regarding the United States-Mexican agreement and that his answers be shown to be in the record of this hearing.

The CHAIRMAN. Without objection, so ordered.

Again, we express our appreciation.

The committee will stand adjourned, to meet at the call of the Chair.

[Whereupon, at 12:30 p.m., the committee adjourned.]

[The material referred to above follows:]

E. THOMAS COLEMAN
6th District, Missouri

COMMITTEES:
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Congress of the United States
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Washington, D.C. 20515

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July 2, 1980

25-711063
FAS

The Honorable Bob Bergland
Secretary
U.S. Department of Agriculture
Washington, D.C. 20250

80 JUL 9 A8:20

Dear Mr. Secretary:

At the hearing on June 25, 1980, before the full House Agriculture Committee regarding the suspension of grain shipments to the Soviet Union, I raised several questions regarding the U.S.-Mexican agreement that was signed on January 16, 1980. While I fully support USDA's initiatives to enhance market development and expand U.S. agricultural exports, I have serious reservations about extending these initiatives to include government-to-government sales of agricultural commodities.

As indicated at the hearing I have several additional questions concerning certain provisions of the U.S.-Mexican agreement. For the record, please provide responses to the following:

1) During the hearing on June 25 you indicated that the Commodity Credit Corporation has been selling nonfat dry milk directly to Mexico. Please provide me with the data substantiating sales of nonfat dry milk from the CCC to Mexico for unrestricted use.

2) After receiving a request from Mexico for the purchase of rice, did the Department consider offering this amount of rice on a competitive bid basis to private companies, which in turn would have sold the rice to Mexico?

If yes, why then did the Department choose to sell directly government-to-government?

3) Was this rice to be for restricted or unrestricted use?

4) At the CCC Board meeting which authorized this sale of rice to Mexico, were any other CCC-owned commodities also approved for sale to Mexico?

If so, were these commodities to be for restricted or unrestricted use in Mexico?

5) Does USDA currently offer its CCC-owned nonfat dry milk for sale on a competitive bid basis to private trade companies?

If no, why not?

I look forward to your prompt and thorough reply.

Sincerely,

E. THOMAS COLEMAN
Member of Congress

ETC:smm

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

JUL 04 1980

Honorable E. Thomas Coleman
House of Representatives
Washington, D. C. 20515

Dear Congressman Coleman:

This is in reply to your letter of July 2, 1980, concerning the questions you asked at the hearing on June 25, 1980, of the House Agricultural Committee. The questions concerned the U.S.-Mexican agreement of January 16, 1980, and the sale of nonfat dry milk to Mexico.

The following are responses to your questions:

(1) Since March of 1978, CCC has negotiated three sales of nonfat dry milk with CONASUPO (Mexican Government Purchasing Agency) totaling 100,000 tons ranging in price from $425 to $1,035 per ton. Of this total, 30,000 tons were sold in March 1978 and 30,000 tons were sold in August 1979. During this year CONASUPO requested additional quantities of nonfat dry milk for 1980 shipments. Since surplus milk has been available in inventory, CCC agreed to sell an additional 40,000 tons of nonfat milk for delivery during July-December 1980, of which 25,000 tons was for social and welfare programs and 15,000 tons for unrestricted use. It has been CCC's policy when making direct government-to-government sales to obtain the best price possible which is usually the prevailing world price at the time the sales are negotiated. Data substantiating these sales are enclosed.

Given that CCC has been selling nonfat dry milk to Mexico since 1978, CONASUPO did not request that this commodity be included in the U.S.-Mexican agreement of January 16, 1980.

(2) The Department of Agriculture, CCC, on April 21, 1980, offered, to private companies, 1975 crop rice for sale by open tender under sales announcement KC-S-RR-1 for unrestricted use at market prices or 165 percent of the loan rate, whichever is higher. Although the rice trade had knowledge that Mexico intended to buy rice in April 1980, as of May 15, 1980, CCC had only sold about 18,100 tons of the approximately 244,900 tons it had offered for sale. If CCC were unable to sell the rice, storage and inventory costs through December 31, 1980, would cost about $4 million or approximately 10 cents per cwt. per month.

In April 1980, CONASUPO tendered in Washington for long grain rice. Upon review of all the offers, CONASUPO decided the bids were priced too high and did not purchase any rice.

On May 15, the CCC board discussed the Mexican request for rice and found no reason why CCC should not sell Mexico rice directly from inventory. Therefore, CCC approved the sale of up to 70,000 tons of CCC inventory rice to CONASUPO (see enclosed CCC Docket CZ 200 Revision 4, as amended, May 15, 1980). CONASUPO has made no purchases under this 70,000 ton authority. However, two small sales of five carload lots each were made under a separate authority for test milling purposes.

(3) Rice sold from CCC inventory under announcement KC-S-RR-1 is for unrestricted use and may be exported or milled domestically.

(4) and (5) The CCC Board on May 15, 1980, approved the sale of rice and nonfat dry milk to Mexico. The rice is for the account of CONASUPO, but the 15,000 tons of nonfat dry milk is for unrestricted use. Nonfat dry milk is usually sold by CCC for restricted uses, but CCC approved the sale of 15,000 tons of old stock, high heat nonfat dry milk to CONASUPO for unrestricted use. CCC-owned nonfat dry milk is available on a competitive bid basis for unrestricted use for domestic or export sales. The sale price of 94.0 cents per pound is considerably higher than the world price for nonfat dry milk; consequently, very little is sold commercially for export.

Sincerely,

Richard E. Lyng

Acting Secretary

Enclosures

"For Official Use Only" and "Secure Storage Required" Provisions Expired on May 20, 1980

CCC Resolution — Rice and Nonfat Dry Milk Available for Sale to the Government of Mexico or Its Agents

Pursuant to Docket CZ 200, Revision 4, as Amended

Approval by Board: May 15, 1980

Approval by Bob Bergland, Secretary of Agriculture: May 20, 1980

RESOLUTION OF THE BOARD OF DIRECTORS

COMMODITY CREDIT CORPORATION

WHEREAS, after consideration of Commodity Credit Corporation's inventory of rough rice and nonfat dry milk acquired under the rice and dairy price support programs, domestic requirements and other foreign outlets, and the probable needs of interested foreign governments and international organizations, it is recommended in the memorandum dated May 14, 1980, from the General Sales Manager, FAS, to the Board of Directors, entitled "Rice and Nonfat Dry Milk Available for Sale to the Government of Mexico or Its Agents Pursuant to Docket CZ-200, Revision 4, as Amended," that 70,000 tons of rough rice and 15,000 tons of nonfat dry milk should be made available for sale for dollars to the Government of Mexico or its agents for unrestricted uses in Mexico at the best price obtainable;

NOW, THEREFORE, BE IT RESOLVED, That the rough rice and the nonfat dry milk, and the quantities thereof so recommended, are hereby determined to be available for sale for dollars to the Government of Mexico or its agents for unrestricted uses in Mexico and that sales of such rough rice and nonfat dry milk for export shall be negotiated at the best prices obtainable, but the sale price of such rough rice shall not be less than 165 per cent of the current loan rate or the market price, whichever is higher.

Approved by the CCC Board of Directors at meeting held on May 15, 1980.

Bill Cheney
Secretary
Commodity Credit Corporation

Approved: Bob Bergland

May 20 1980
Secretary of Agriculture

UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
WASHINGTON, D.C. 20250

TO: Board of Directors, Commodity Credit Corporation

SUBJECT: Rice and Nonfat Dry Milk Available for Sale to the Government of Mexico or Its Agents Pursuant to Docket CZ-200, Revision 4, as Amended

Pursuant to Docket CZ-200, Revision 4, as amended, entitled "Disposal of Commodity Credit Corporation Commodities and Materials", any proposed sale of agricultural commodities from CCC inventory to foreign governments or their agents for unrestricted use(s) abroad must be submitted to the CCC Board of Directors for approval.

RICE

The Secretary of Agriculture has approved the sale to CONASUPO, a government buying agency representing the Government of Mexico, of about 465 tons of rough rice. The rice is to be milled in the United States and, if tests of the milled rice prove to be satisfactory to CONASUPO, it is interested in buying an additional 70,000 tons of rough rice from CCC. If such a sale is concluded, it is expected that deliveries will be completed by December 31, 1980.

Since April 21, 1980, CCC has been offering rice for sale by open tender under sales announcement KC-S-RR-1 for unrestricted uses at market value or 165 percent of the loan rate, whichever is higher. Since that time, CCC has only sold about 18,100 tons which leaves our current inventory, which consists of 1975 crop rice, at about 226,800 tons. If CCC carries this rice in inventory from now until December 31, 1980, CCC's storage and interest cost would total about $4 million or approximately 10 cents per cwt. per month.

CONASUPO has indicated an interest in making future purchases of rice in addition to the 70,000 tons, if the test results on the 465 tons of rice is satisfactory. Such sales would help reduce CCC's inventories of rice as well as storage costs and help maintain a future export market of this commodity to Mexico. In addition, this gives CCC an opportunity to sell old rice since there are very few sale opportunities available on the foreign market to dispose of 1975-crop rice.

NONFAT DRY MILK

Since December 21, 1979, when the Board approved the sale of up to 50,000 tons of nonfat dry milk from CCC stocks to voluntary relief organizations or foreign governments for restricted uses, CCC has sold 25,000 tons of nonfat dry milk to CONASUPO for delivery in 1980 and has made one small

sale of 15 tons to the Mexican Christian Children's Aid, a charitable California corporation. CONASUPO is now interested in buying an additional 15,000 tons of nonfat dry milk to be used for industrial or unrestricted uses in Mexico. Deliveries are expected to be completed by December 31, 1980.

The major exporting countries of nonfat dry milk have been contacted and have raised no objections to our proposed sales in view of their current milk supplies but have requested that such sales be made at prices not lower than the prevailing world price and that we keep them informed with respect to the price.

As of May 9, 1980, CCC had approximately 197,300 tons of uncommitted nonfat dry milk in inventory and it is estimated that CCC will acquire about 82,100 tons during the remainder of this marketing year under its domestic price support program. After taking into consideration domestic uses, Title II donations, and exports to be made under contracts still outstanding for restricted uses, it is estimated that we will still have a surplus of about 224,530 tons of milk by September 30, 1980. Favorable action by the Board to permit CCC to sell 15,000 tons of nonfat dry milk to CONASUPO for commercial uses will not resolve our immediate problems with respect to our inventory surplus, but such a sale could open the door for new sale opportunities in the future.

RECOMMENDATION

Approval of this recommendation by the Board would permit CCC to negotiate sales of CCC-owned rice and nonfat dry milk to CONASUPO for expected delivery by December 31, 1980, for unrestricted uses in Mexico, at the best price obtainable. The general policy of CCC in making such sales is to insure that the commodity is paid for prior to delivery or that acceptable assurance of payment such as a letter of credit in favor of CCC be obtained from the buyer.

In view of the above, it is recommended that the sale of 70,000 tons of rough rice and 15,000 tons of nonfat dry milk to CONASUPO for unrestricted uses in Mexico be authorized.

RECOMMENDED:

General Sales Manager and
Associate Administrator

Approved for submission to the Board
of Directors, Commodity Credit Corporation

Executive Vice President
Commodity Credit Corporation

FOR OFFICIAL USE ONLY
UNTIL APPROVED BY THE SECRETARY
SECURE STORAGE REQUIRED

ASCS
UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL STABILIZATION AND CONSERVATION SERVIC
P. O. BOX 2415 WASHINGTON, D. C. 20

MAY 1 2 1980

TO: Board of Directors,
Commodity Credit Corporation

FROM: Deputy Director-Budget, Financial Management Division

SUBJECT: Availability of Funds Statement: Rice and Nonfat Dry Milk Available for Sale to the Government of Mexico or Their Agents Pursuant to Docket CZ-200, Revision 4, as Amended

No commitment of funds for commodity cost is necessary for this resolution.

This resolution provides approval for the anticipated export sale of rice and nonfat dry milk to Mexico or their agents during fiscal years 1980 and 1981.

It is estimated that Commodity Credit Corporation funds will be available in the event transportation and handling expenses are incurred for this activity in fiscal years 1980 and 1981.

Angelus V. Brecht

DEPARTMENT OF AGRICULTURE
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20250

MAY 13 1980

Subject: Rice and Nonfat Dry Milk Available for Sale to the Government of Mexico or Its Agents Pursuant to Docket CZ-200, Revision 4, as Amended

TO: Board of Directors
Commodity Credit Corporation

The attached resolution would authorize the export sale for dollars of 70,000 tons of rough rice and 15,000 tons of nonfat dry milk from Commodity Credit Corporation's ("CCC") inventory to the Government of Mexico or its agents for unrestricted uses in Mexico.

Docket CZ-200, Revision 4, as amended, provides that sales (except Title I, P.L. 480 sales) of commodities from CCC's inventory to foreign governments or their agents for unrestricted use abroad shall be made only after approval of the Board of Directors.

The memorandum from the General Sales Manager, FAS, transmitting his recommendation to the Board, states that CCC's current inventory of rough rice is 226,800 tons and the uncommitted nonfat dry milk inventory is 197,300 tons. The memorandum further states that CONASUPO, a Government of Mexico buying agency, is interested in buying an amount up to 70,000 tons of rough rice and 15,000 tons of nonfat dry milk directly from CCC for unrestricted uses in Mexico. Deliveries are expected to be completed by December 31, 1980.

Government to government sales of CCC stocks are authorized to the extent it is found to be impracticable, in the fulfillment of its purposes and the effective and efficient conduct of its business, for CCC to use private trade facilities. In addition, the price at which CCC's commodities are sold for export for unrestricted use under government to government sales must be the highest price obtainable, taking into consideration the quantity and condition of the commodity to be sold, the method of sale, the price at which the commodity is being sold by other exporting countries in world trade, and sales effect in maintaining, regaining, and expanding export markets. The Corporation would be authorized to sell a commodity for export under a government to government agreement at a price less than it could otherwise obtain from any other purchaser only if it were determined that the losses incurred were offset by advantages to be obtained in carrying out an authorized purpose, such as development of foreign markets.

Approval of the attached resolution would permit CCC to negotiate the sale of 70,000 tons of rough rice and 15,000 tons of nonfat dry milk from CCC stocks to CONASUPO at the highest price obtainable.

Statutory authority for such sales is found in section 407 of the Agricultural Act of 1949, as amended, and in section 5 of the Commodity Credit Corporation Charter Act, as amended.

The attached resolution is approved for legal sufficiency.

/s/ Daniel Marcus

DANIEL MARCUS
General Counsel

Attachment